

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Eastpointe, Michigan</u>	County Macomb
Audit Date June 30, 2005	Opinion Date October 28, 2005	Date Accountant Report Submitted To State: December 21, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |  |   |
|--|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no            | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no            | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no            | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no            | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no            | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no            | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no            | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input checked="" type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no            | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 10 South Main Street, Suite 200	City Mount Clemens	State MI	ZIP 48043
Accountant Signature 			

# **City of Eastpointe, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2005**

# City of Eastpointe, Michigan

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## Contents

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-8
<b>Basic Financial Statements</b>	
Government-wide Financial Statements:	
Statement of Net Assets (Deficit)	9
Statement of Activities	10-11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12-13
Reconciliation of Fund Balances to the Statement of Net Assets (Deficit)	14
Statement of Revenue, Expenditures, and Changes in Fund Balances	15-16
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Proprietary Fund - Enterprise Fund:	
Statement of Net Assets	18
Statement of Revenue, Expenses, and Changes in Net Assets	19
Statement of Cash Flows	20
Fiduciary Funds:	
Statement of Net Assets	21
Statement of Changes in Net Assets - Pension and Other Employee Benefit Trust Funds	22
Notes to Financial Statements	23-42
<b>Required Supplemental Information</b>	43
Budgetary Comparison Schedule:	
General Fund	44
Major Special Revenue Funds	45-48
Retirement System Schedule of Funding Progress	49
Retirement System Schedule of Employer Contributions	50

# City of Eastpointe, Michigan

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## Contents (Continued)

<b>Other Supplemental Information</b>	<b>51</b>
Nonmajor Governmental Funds:	
Combining Balance Sheet	52-54
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	55-57
Fiduciary Funds:	
Combining Statement of Net Assets	58-59
Combining Statement of Changes in Net Assets - Pension and Other Employee Benefit Trust Funds	60
Schedule of Indebtedness	61-62



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## Independent Auditor's Report

To the Honorable Mayor and Members  
of the City Council  
City of Eastpointe, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Eastpointe, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Eastpointe, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Eastpointe, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and Members  
of the City Council  
City of Eastpointe, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Eastpointe, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

October 28, 2005

# City of Eastpointe, Michigan

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## Management's Discussion and Analysis

Our discussion and analysis of the City of Eastpointe's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$65,000 this year. The City continued to reduce programs, staffing levels, and capital spending, with tighter controls over all expenditures. The result of the City taking these continued proactive measures in the area of expenditure control was a decrease in use of fund balance of \$209,681 from a budgeted appropriation of \$937,245.
- Total net assets related to the City's governmental activities increased by approximately \$555,000. However, the unrestricted portion of net assets increased by approximately \$656,000 (see table of net assets on the following page).

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets (deficit) and the statement of activities provide information about the activities of the City of Eastpointe as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The notes to the financial statements are found on pages 23-42. These notes are an integral part of the financial statements and should be read in conjunction with the remainder of the financial statements. It may be useful to read the notes prior to any detailed review of the various statements throughout the report.

# City of Eastpointe, Michigan

## Management's Discussion and Analysis (Continued)

### The City of Eastpointe as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Assets</b>						
Current assets	\$ 10,424	\$ 9,578	\$ 10,116	\$ 10,355	\$ 20,540	\$ 19,933
Noncurrent assets	29,979	30,030	12,503	11,194	42,482	41,224
Total assets	40,403	39,608	22,619	21,549	63,022	61,157
<b>Liabilities</b>						
Current liabilities	2,166	1,206	1,034	1,034	3,200	2,240
Long-term liabilities	15,649	17,112	34	37	15,683	17,149
Total liabilities	17,815	18,318	1,068	1,071	18,883	19,389
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	15,088	14,473	9,179	7,863	24,267	22,336
Restricted	4,759	3,864	-	-	4,759	3,864
Unrestricted	2,741	2,953	12,372	12,615	15,113	15,568
Total net assets	<u>\$ 22,588</u>	<u>\$ 21,290</u>	<u>\$ 21,551</u>	<u>\$ 20,478</u>	<u>\$ 44,139</u>	<u>\$ 41,768</u>

The City of Eastpointe's combined net assets increased approximately 5.5 percent from a year ago, from approximately \$41.8 million in 2004 to \$44.1 million in 2005. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$1,298,000 in net assets, or 6.1 percent during fiscal 2005. The business-type activities experienced a \$1.1 million increase in net assets, or 5.2 percent. This is largely due to an increase in water and sewer rates to fund planned infrastructure improvements.

Unrestricted net assets, the portion of net assets that can be used to finance day-to-day operations, decreased by approximately \$212,000 for the governmental activities. This represents a decrease of approximately 7.2 percent. The current level of unrestricted net assets for our governmental activities stands at \$2.7 million, or about 11.5 percent of expenses.

# City of Eastpointe, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year:

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 4,416	\$ 3,929	\$ 8,681	\$ 8,854	\$ 13,097	\$ 12,783
Operating grants and contributions	2,227	2,402	-	-	2,227	2,402
Capital grants and contributions	561	790	-	-	561	790
General revenue:						
Property taxes	12,481	12,176	-	-	12,481	12,176
State-shared revenue	3,887	3,930	-	-	3,887	3,930
Interest	216	146	145	88	361	234
Gain (loss) on sale of capital assets	19	(125)	-	-	19	(125)
Cable fees and other	289	284	-	283	289	567
Transfers and other revenue	1,111	1,093	(1,111)	(1,093)	-	-
Total revenue	25,207	24,625	7,715	8,132	32,922	32,757
<b>Program Expenses</b>						
General government	6,758	6,874	-	-	6,758	6,874
Public safety	10,043	9,865	-	-	10,043	9,865
Public works	4,122	4,231	-	-	4,122	4,231
Recreation and culture	2,489	2,964	-	-	2,489	2,964
Interest on long-term debt	497	332	-	-	497	332
Water and sewer	-	-	6,643	6,665	6,643	6,665
Total program expenses	23,909	24,266	6,643	6,665	30,552	30,931
<b>Change in Net Assets</b>	<b>\$ 1,298</b>	<b>\$ 359</b>	<b>\$ 1,072</b>	<b>\$ 1,467</b>	<b>\$ 2,370</b>	<b>\$ 1,826</b>

### Governmental Activities

The City of Eastpointe's total governmental revenues were approximately \$25.2 million, despite decreases in state-shared revenue and capital grants and contributions. These decreases were offset by an increase in interest income, charges for services, transfers, and other revenue.

Governmental activity expenditures of approximately \$23.9 million were recorded for the year. Program expenditures increased over the previous year due to increases in police overtime, judicial, building inspection, and transfers to other funds. To offset this, the City closely monitored its spending in all other areas, including seasonal hiring, programs, nonessential overtime hours, and capital purchases.

# **City of Eastpointe, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Business-type Activities**

The City of Eastpointe's business-type activity consists of the Water and Sewer Fund. The City provides to residents water purchased from the City of Detroit Water System. The City provides sewage treatment through the Southeast Macomb Sanitary District. Fiscal year 2005 was a wetter-than-average year, which resulted in a marked decrease in the volume of water sold. This resulted in a decrease in operating income.

### **The City of Eastpointe's Funds**

Our analysis of the City of Eastpointe's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City of Eastpointe as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as State of Michigan Act 51 major and local road revenue sharing and the voted special property tax millages. The City of Eastpointe's major funds for 2005 include the General Fund, the Fire Fund, the Garbage and Rubbish Collection Fund, Major and Local Streets Funds, the Capital Improvement Fund, and the SEMSD Clean Water Initiative Fund.

The General Fund accounts for most of the City's governmental services. The most significant is police, which incurred expenditures of approximately \$5.9 million in 2005. The cost of the police department is funded by other general revenue sources of the General Fund. Fire services are supported by General Fund contributions and a special ALS/Fire millage, all of which are recorded in the Fire Fund. This fund recorded the receipt of approximately \$659,000 from the special millage and a transfer of approximately \$2.3 million from the General Fund. The amount transferred from the General Fund is determined based on estimated costs to maintain ALS/Fire services, as well as specific capital outlay approved by the City Council. The Equipment Replacement Fund is used by the City to account for most capital outlay expenditures. Transfers from other funds, antenna lease revenue, and equipment rental fees support this fund.

# **City of Eastpointe, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **General Fund Budgetary Highlights**

Over the course of the year, the City Council and City administration monitor and amend the budget to take into account unanticipated events during the year. The most significant changes were a decrease in state-shared revenue and reduced licensing and permit revenue. Prudent budgeting and continued monitoring of all expenditures reduced the effect of the loss of these revenues. At year end, actual General Fund revenues came in \$83,662 under the amended budget. The City of Eastpointe's departments overall stayed below budget, resulting in total expenditures of \$754,447 below budget. Expenditures were under budget primarily due to savings from personnel vacancies and overall tighter controls on spending. Mid-year, and again at year end, the City amended the budget to reflect changes in debt obligations and capital purchases. In addition, departments were required to assess every purchase and exercise cost savings measures to minimize the impact on the General Fund's fund balance at year end. As a result, the General Fund's fund balance decreased from \$3,902,937 a year ago to \$3,693,256 at June 30, 2005.

### **Capital Asset and Debt Administration**

At the end of 2005, the City of Eastpointe had \$38.8 million invested in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, and water and sewer lines. The City of Eastpointe has invested significantly in roads within the major and local street system, sidewalks, and water and sewer lines since 1980. The value of infrastructure assets, net of depreciation contained in this report, is \$31.3 million for fiscal year 2005. Included in the infrastructure assets is \$11.7 million for infrastructure construction in progress for the Lake St. Clair Clean Water Initiative.

Debt reported in these financial statements is related to the construction of the above-mentioned infrastructure assets and buildings and is reported as a liability on the statement of net assets (see Note 6 of the notes to the basic financial statements for additional information).

### **Economic Factors and Next Year's Budgets and Rates**

The City of Eastpointe's budget for next year calls for a minimal increase of 2.3 percent on property tax rates, based on the rate of inflation. Because of the impact of Proposal A, however, the City needs to continue to monitor its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions. State revenue-sharing payments were decreased again this past year and are likely to decrease again due to state cutbacks and less sales tax receipts at the State level. These factors, coupled with recent decreases from historical norms in other revenues including charges for services, continue to have a major impact on the City's ability to balance its budget. Due to the compounding effect of Proposal A, the Tax Reform Act and reduced state revenue-sharing payments, the City will be asking for voter approval of a seven mill public safety millage for a period of five years beginning with the 2006 fiscal year.

# **City of Eastpointe, Michigan**

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## **Management's Discussion and Analysis (Continued)**

Despite these concerns, the City will continue to operate as efficiently as possible in the next fiscal year. Various personnel positions will remain vacant, with reduced departmental budgets and minimal capital spending budgeted for the next year. We expect continued annual increases in health care costs of 8 percent to 10 percent each year. Additionally, the cost of funding retiree health care will increase proportionately. The City's pension system, while fully funded, is again required to make actuarial determined contributions due to negotiated changes in benefits. An increase in stock market and investment returns will continue to help offset future required contributions.

The City purchases its water from the City of Detroit, which forecasts increases averaging 10 percent annually for the next five years. The City must pass on these increases to its customers through its water rate. The City's water and sewer rates are based on anticipated costs of the system in the current fiscal year. Costs include the purchase of water from Detroit, disposal and treatment of sewage, personnel and operating costs, and needed system improvements. The water rates will have to increase somewhat in 2006 as costs are passed on to the City. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2006 to discuss the need for such an increase. This information will also be presented to the public during the City's budgeting process.

### **Contacting the City of Eastpointe's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Eastpointe's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the administration offices at the City of Eastpointe, 23200 Gratiot Avenue, Eastpointe, MI 48021.

# City of Eastpointe, Michigan

## Statement of Net Assets (Deficit) June 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 7,608,130	\$ 5,712,154	\$ 13,320,284	\$ 131,273
Receivables:				
Taxes	85,545	-	85,545	-
Special assessments	147,442	-	147,442	-
Accounts - Net of governmental activities allowance for doubtful accounts of \$392,596	387,045	4,383,372	4,770,417	625
Interest receivable	25,228	-	25,228	-
Due from other governmental units	2,164,835	-	2,164,835	-
Inventories	-	20,405	20,405	-
Prepaid costs and other assets	5,952	-	5,952	16,242
Investments in joint ventures (Note 11):				
Southeast Macomb Sanitary District	-	3,324,844	3,324,844	-
South Macomb Disposal Authority	375,525	-	375,525	-
Capital assets (Note 4):				
Nondepreciable capital assets	13,154,247	-	13,154,247	-
Depreciable capital assets	16,449,118	9,178,699	25,627,817	-
<b>Total assets</b>	<b>40,403,067</b>	<b>22,619,474</b>	<b>63,022,541</b>	<b>148,140</b>
<b>Liabilities</b>				
Accounts payable	549,339	931,932	1,481,271	6,396
Accrued and other liabilities	793,443	103,258	896,701	8,874
Noncurrent liabilities (Note 6):				
Due within one year	822,749	-	822,749	75,000
Due in more than one year	15,649,082	33,732	15,682,814	430,000
<b>Total liabilities</b>	<b>17,814,613</b>	<b>1,068,922</b>	<b>18,883,535</b>	<b>520,270</b>
<b>Net Assets (Deficit)</b>				
Invested in capital assets - Net of related debt	15,088,103	9,178,699	24,266,802	-
Restricted:				
Public safety	715,462	-	715,462	-
Library	20,445	-	20,445	-
Sanitation	867,978	-	867,978	-
Construction projects	309,846	-	309,846	-
Streets and highways	2,632,463	-	2,632,463	-
Debt service	213,015	-	213,015	-
Unrestricted	2,741,142	12,371,853	15,112,995	(372,130)
<b>Total net assets (deficit)</b>	<b>\$ 22,588,454</b>	<b>\$ 21,550,552</b>	<b>\$ 44,139,006</b>	<b>\$ (372,130)</b>

# City of Eastpointe, Michigan

		Program Revenues		
		Charges for	Operating Grants and Contributions	Capital Grants and Contributions
	Expenses	Services		
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 6,757,543	\$ 2,603,747	\$ 58,439	\$ -
Public safety	10,042,765	1,226,819	102,358	-
Public works	4,122,725	3,217	2,034,454	560,541
Recreation and culture	2,489,049	582,310	31,235	-
Interest on long-term debt	496,830	-	-	-
Total governmental activities	23,908,912	4,416,093	2,226,486	560,541
Business-type activities - Water and sewer	6,642,901	8,680,980	-	-
Total primary government	<u><b>\$ 30,551,813</b></u>	<u><b>\$ 13,097,073</b></u>	<u><b>\$ 2,226,486</b></u>	<u><b>\$ 560,541</b></u>
Component unit - Downtown Development Authority:				
Community enrichment and development	\$ 89,112	\$ 1,756	\$ 150	\$ -
Interest on long-term debt	31,313	-	-	-
Total component units	<u><b>\$ 120,425</b></u>	<u><b>\$ 1,756</b></u>	<u><b>\$ 150</b></u>	<u><b>\$ -</b></u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Gain on sale of capital assets				
Cable fees and other				
Transfers				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets (Deficit) - Beginning of year - As restated (Note 1)</b>				
<b>Net Assets (Deficit) - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (4,095,357)	\$ -	\$ (4,095,357)	\$ -
(8,713,588)	-	(8,713,588)	-
(1,524,513)	-	(1,524,513)	-
(1,875,504)	-	(1,875,504)	-
(496,830)	-	(496,830)	-
(16,705,792)	-	(16,705,792)	-
-	2,038,079	2,038,079	-
(16,705,792)	2,038,079	(14,667,713)	-
-	-	-	(87,206)
-	-	-	(31,313)
-	-	-	(118,519)
12,481,170	-	12,481,170	200,943
3,887,420	-	3,887,420	-
215,917	144,933	360,850	3,695
19,041	-	19,041	-
289,196	-	289,196	-
1,110,800	(1,110,800)	-	-
18,003,544	(965,867)	17,037,677	204,638
1,297,752	1,072,212	2,369,964	86,119
21,290,702	20,478,340	41,769,042	(458,249)
<b>\$ 22,588,454</b>	<b>\$ 21,550,552</b>	<b>\$ 44,139,006</b>	<b>\$ (372,130)</b>

# City of Eastpointe, Michigan

	Major Special Revenue Funds				
			Garbage and Rubbish Collection	Major Streets	Local Streets
	General Fund	Fire			
<b>Assets</b>					
Cash and cash equivalents (Note 3)	\$ 2,574,239	\$ 344,374	\$ 1,012,277	\$ 1,374,835	\$ 954,375
Receivables:					
Taxes	85,545	-	-	-	-
Special assessments	-	-	-	-	-
Accounts - Net of allowance for doubtful accounts of \$392,596	247,583	135,883	3,579	-	-
Interest	25,228	-	-	-	-
Prepaid expenses	5,952	-	-	-	-
Due from other funds (Note 5)	20,881	-	-	-	-
Due from other governmental units	1,666,884	-	-	325,552	86,309
<b>Total assets</b>	<b>\$ 4,626,312</b>	<b>\$ 480,257</b>	<b>\$ 1,015,856</b>	<b>\$ 1,700,387</b>	<b>\$ 1,040,684</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 187,975	\$ 25,634	\$ 147,878	\$ 85,274	\$ 6,057
Accrued and other liabilities	533,076	106,367	-	7,956	9,321
Due to other funds	-	-	-	-	-
Deferred revenue	212,005	134,337	-	-	-
<b>Total liabilities</b>	<b>933,056</b>	<b>266,338</b>	<b>147,878</b>	<b>93,230</b>	<b>15,378</b>
<b>Fund Balances</b>					
Reserved for prepaid expenses	5,952	-	-	-	-
Unreserved:					
Designated for subsequent years' expenditures	1,955,000	-	-	-	-
Designated for compensated absences	1,068,000	-	-	-	-
Undesignated	664,304	-	-	-	-
Unreserved, reported in:					
Special Revenue Funds	-	213,919	867,978	1,607,157	1,025,306
Debt Service Funds - Designated for debt service	-	-	-	-	-
Capital Projects Funds - Designated for capital improvements	-	-	-	-	-
<b>Total fund balances</b>	<b>3,693,256</b>	<b>213,919</b>	<b>867,978</b>	<b>1,607,157</b>	<b>1,025,306</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,626,312</b>	<b>\$ 480,257</b>	<b>\$ 1,015,856</b>	<b>\$ 1,700,387</b>	<b>\$ 1,040,684</b>

**Governmental Funds  
Balance Sheet  
June 30, 2005**

Major Capital Projects Funds

Capital Improvement	SEMSD Clean Water Initiative	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 225,343	\$ -	\$ 1,122,688	\$ 7,608,131
-	-	-	85,545
147,442	-	-	147,442
-	-	-	387,045
-	-	-	25,228
-	-	-	5,952
-	-	-	20,881
-	-	86,090	2,164,835
<b>\$ 372,785</b>	<b>\$ -</b>	<b>\$ 1,208,778</b>	<b>\$ 10,445,059</b>
\$ 62,939	\$ -	\$ 33,583	\$ 549,340
-	-	28,041	684,761
-	-	20,881	20,881
105,643	-	-	451,985
168,582	-	82,505	1,706,967
-	-	-	5,952
-	-	-	1,955,000
-	-	-	1,068,000
-	-	-	664,304
-	-	423,589	4,137,949
-	-	213,407	213,407
204,203	-	489,277	693,480
204,203	-	1,126,273	8,738,092
<b>\$ 372,785</b>	<b>\$ -</b>	<b>\$ 1,208,778</b>	<b>\$ 10,445,059</b>

# City of Eastpointe, Michigan

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## **Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets (Deficit) June 30, 2005**

<b>Total Fund Balances for Governmental Funds</b>	<b>\$ 8,738,092</b>
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Amounts reported for governmental activities in the statement of net assets (deficit) are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	29,603,365
--	------------

Certain receivables are expected to be collected over several years in the General Fund and are not available to pay for current year expenditures	134,337
--	---------

Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	317,648
---	---------

Long-term bonds payable are not due and payable in the current period and are not reported in the funds	(14,515,262)
---	--------------

Investment in joint venture is not included as an asset in the governmental funds	375,525
---	---------

Long-term portion of compensated absences is not due and payable in the current period and is not reported in the funds	(1,068,172)
---	-------------

Accrued interest payable is not reported in the funds	(108,682)
---	-----------

Long-term portion of uninsured losses is not reported in the funds	(267,150)
--	-----------

Net pension obligation in governmental activities is not reported in the funds	<u>(621,247)</u>
--	------------------

<b>Net Assets of Governmental Activities</b>	<b><u>\$ 22,588,454</u></b>
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# City of Eastpointe, Michigan

	Major Special Revenue Funds				
	General Fund	Fire Fund	Garbage and Rubbish		Local Streets
			Collection	Major Streets	
<b>Revenue</b>					
Property taxes	\$ 8,796,871	\$ 658,609	\$ 1,703,092	\$ -	\$ -
Special assessments	-	-	-	-	-
Licenses and permits	575,332	-	-	-	-
Intergovernmental:					
Federal sources	2,504	27,292	-	-	-
State sources	3,923,004	-	-	1,500,913	533,541
Charges for services	372,502	340,798	-	-	-
Rental income	149,422	-	-	-	-
Fines and forfeits	2,100,042	-	-	-	-
Interest income	105,605	4,010	26,290	33,813	19,751
Other	377,387	1,339	-	110,700	226
Total revenue	16,402,669	1,032,048	1,729,382	1,645,426	553,518
<b>Expenditures</b>					
Current:					
General government	5,798,069	-	-	-	-
Public safety	6,477,784	3,020,002	-	-	-
Public works	350,594	-	1,516,494	1,321,411	618,633
Recreation and culture	1,493,088	-	-	-	-
Capital outlay	-	-	-	-	-
Construction and development	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	14,119,535	3,020,002	1,516,494	1,321,411	618,633
<b>Excess of Revenue Over (Under) Expenditures</b>	2,283,134	(1,987,954)	212,888	324,015	(65,115)
<b>Other Financing Sources (Uses)</b>					
Transfers in	410,700	2,302,892	-	-	216,979
Transfers out	(2,903,515)	(162,292)	-	(232,479)	(10,200)
Total other financing sources (uses)	(2,492,815)	2,140,600	-	(232,479)	206,779
<b>Net Change in Fund Balances</b>	(209,681)	152,646	212,888	91,536	141,664
<b>Fund Balances - Beginning of year</b>	3,902,937	61,273	655,090	1,515,621	883,642
<b>Fund Balances - End of year</b>	<u>\$ 3,693,256</u>	<u>\$ 213,919</u>	<u>\$ 867,978</u>	<u>\$ 1,607,157</u>	<u>\$ 1,025,306</u>

**Governmental Funds**  
**Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances**  
**Year Ended June 30, 2005**

Major Capital Projects Funds

Capital Improvement	SEMSD Clean Water Initiative	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 1,322,598	\$ 12,481,170
288,464	-	-	288,464
-	-	-	575,332
-	-	74,836	104,632
-	-	29,685	5,987,143
-	-	2,969	716,269
-	-	156,524	305,946
-	-	485,420	2,585,462
6,069	-	20,297	215,835
3,073	-	50,646	543,371
297,606	-	2,142,975	23,803,624
-	-	-	5,798,069
-	-	262,718	9,760,504
305,223	-	801,667	4,914,022
-	-	726,386	2,219,474
-	-	365,413	365,413
-	-	-	-
-	-	660,235	660,235
-	-	506,214	506,214
305,223	-	3,322,633	24,223,931
(7,617)	-	(1,179,658)	(420,307)
-	-	1,488,715	4,419,286
-	-	-	(3,308,486)
-	-	1,488,715	1,110,800
(7,617)	-	309,057	690,493
211,820	-	817,216	8,047,599
<u>\$ 204,203</u>	<u>\$ -</u>	<u>\$ 1,126,273</u>	<u>\$ 8,738,092</u>

# City of Eastpointe, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 690,493</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	1,616,435
Depreciation is recorded as an expense in the statement of activities but not in the governmental funds	(1,633,798)
Special assessment revenues are recorded in the statement of activities when the assessment is made; they are not reported in the funds until collected or collectible within 60 days of year end	(76,809)
Revenue is reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	84,978
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	667,776
Change in investment in joint venture is not recorded in the governmental funds	2,295
Interest expense is reported in the statement of activities when a liability is incurred; they are reported in the governmental funds only when payment is due	10,044
Change in accumulated employee sick and vacation pay, as well as estimated general liability and workers' compensation claims, are recorded when earned in the statement of activities	(17,255)
Change in net pension obligation is recorded when incurred in the statement of activities	(10,795)
In the statement of activities, only the gain/loss on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds from the assets sold	(35,612)
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 1,297,752</u></b>

# City of Eastpointe, Michigan

## Proprietary Fund - Enterprise Fund Statement of Net Assets June 30, 2005

	Water and Sewer Fund
<b>Assets</b>	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 5,712,154
Customer receivables	4,383,372
Inventories	<u>20,405</u>
Total current assets	10,115,931
Noncurrent assets:	
Investment in Southeast Macomb Sanitary District (Note 11)	3,324,844
Capital assets - Net (Note 4)	<u>9,178,699</u>
Total noncurrent assets	<u>12,503,543</u>
Total assets	22,619,474
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	931,932
Accrued and other liabilities	<u>103,258</u>
Total current liabilities	1,035,190
Noncurrent liabilities - Provision for compensated absences (Note 6)	<u>33,732</u>
Total liabilities	<u>1,068,922</u>
<b>Net Assets</b>	
Invested in capital assets	9,178,699
Unrestricted	<u>12,371,853</u>
Total net assets	<u><u>\$ 21,550,552</u></u>

# City of Eastpointe, Michigan

## Proprietary Fund - Enterprise Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Water and Sewer Fund
<b>Operating Revenue</b>	
Water sales	\$ 2,122,651
Sewage disposal	4,294,621
Penalties	286,400
Charges for services	<u>1,977,308</u>
Total operating revenue	8,680,980
<b>Operating Expenses</b>	
Water purchases	977,474
Sewage treatment	3,471,222
Maintenance and operation	324,038
General and administration	1,338,739
Other	6,084
Depreciation	<u>525,344</u>
Total operating expenses	<u>6,642,901</u>
<b>Operating Income</b>	2,038,079
<b>Nonoperating Income</b> - Interest income	<u>144,933</u>
<b>Income</b> - Before transfers to other funds	2,183,012
<b>Transfers to Other Funds</b>	<u>(1,110,800)</u>
<b>Change in Net Assets</b>	1,072,212
<b>Net Assets</b> - Beginning of year	<u>20,478,340</u>
<b>Net Assets</b> - End of year	<u><u>\$ 21,550,552</u></u>

# City of Eastpointe, Michigan

## Proprietary Fund - Enterprise Fund Statement of Cash Flows Year Ended June 30, 2005

	Water and Sewer Fund
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 8,406,190
Payments to suppliers	(5,791,523)
Payments to employees	(327,024)
Other receipts	<u>6,226</u>
Net cash provided by operating activities	2,293,869
<b>Cash Flows from Noncapital Financing Activities</b> - Operating transfers out	(1,110,800)
<b>Cash Flows from Capital and Related Financing Activities</b> - Purchase of capital assets	(1,840,934)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	<u>144,932</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(512,933)
<b>Cash and Cash Equivalents</b> - Beginning of year	<u>6,225,087</u>
<b>Cash and Cash Equivalents</b> - End of year	<u><u>\$ 5,712,154</u></u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>	
Operating income	\$ 2,038,079
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	525,344
Changes in assets and liabilities:	
Receivables	(274,790)
Inventories	821
Investment in joint venture	6,226
Accounts payable	(10,190)
Accrued and other liabilities	<u>8,379</u>
Net cash provided by operating activities	<u><u>\$ 2,293,869</u></u>

There were no noncash investing, capital, and financing activities during the year ended June 30, 2005.

# City of Eastpointe, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2005

	Pension and Other Employee Benefit Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 1,212,655	\$ 28,983
Investments (Note 3):		
Corporate bonds and notes	4,963,312	-
U.S. government securities	3,771,230	-
Common and preferred stock	28,882,599	-
Mutual funds	10,438,755	-
Due from other governmental units	-	1,055
Total assets	49,268,551	<u><u>\$ 30,038</u></u>
<b>Liabilities</b>		
Accounts payable	83,488	\$ 1,380
Accrued and other liabilities	-	28,658
Total liabilities	83,488	<u><u>\$ 30,038</u></u>
<b>Net Assets</b> - Held in trust for pension and other employee benefits	<u><u>\$ 49,185,063</u></u>	

# City of Eastpointe, Michigan

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## **Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2005**

### **Additions**

Investment income:

Interest and dividends	\$ 1,360,715
Net adjustment to fair value of investments	2,117,709
Less investment expenses	<u>(303,066)</u>

Net investment income 3,175,358

Employer contributions 1,816,348

Total additions 4,991,706

### **Deductions**

Benefit payments	3,364,897
Health insurance premiums	1,882,523
Administrative expenses	<u>8,458</u>

Total deductions 5,255,878

**Change in Net Assets** (264,172)

**Net Assets - Beginning of year** 49,449,235

**Net Assets - End of year** \$ 49,185,063

# City of Eastpointe, Michigan

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## Notes to Financial Statements June 30, 2005

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Eastpointe, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Eastpointe, Michigan:

#### **Reporting Entity**

The City of Eastpointe, Michigan operates with the Council-Manager form of government. It is governed by a City Council consisting of a mayor and four council members who are elected at large to overlapping four-year terms. In accordance with the provisions of the City Charter, the City Council appoints, among others, the city manager and the finance director, each of whom reports directly to the City Council. The city manager is responsible for the administration of the affairs of the City, except for those affairs that are the responsibility of other appointed officials. The finance director is responsible for the administration of the financial affairs of the City, including keeping and supervision of accounts, collections of taxes, and the custody and disbursement of City funds.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

#### **Blended Component Units**

The Building Authority of Eastpointe, an entity legally separate from the City, is governed by a three-member board appointed by the City Council. For financial reporting purposes, the Building Authority is reported as if it were a part of the City's operations because its purpose is to finance and construct buildings for the City. The operations of the Building Authority are reported as nonmajor Debt Service and Capital Projects Funds.

# City of Eastpointe, Michigan

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## Notes to Financial Statements June 30, 2005

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Discretely Presented Component Unit**

The City of Eastpointe Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the city manager and approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council. Complete financial statements for the Downtown Development Authority can be obtained from the administrative offices at 23200 Gratiot Avenue, Eastpointe, MI 48021.

The City has excluded the Economic Development Corporation since it is inactive. The City has also excluded the Housing Commission from this report since the City does not have the ability to impose its will.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the City (the primary government) and its discretely presented component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other revenue items properly excluded from program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, the proprietary fund, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual Enterprise Fund are reported as separate columns in the fund financial statements.

### **Note I - Summary of Significant Accounting Policies (Continued)**

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Fire Fund** - The Fire Fund accounts for fire safety and protection services/activities within the City. Funding is provided primarily through a local property tax levy and a transfer from the General Fund.

**Garbage and Rubbish Collection Fund** - The Garbage and Rubbish Collection Fund accounts for garbage and rubbish collection services/activities within the City. Funding is provided primarily through a local property tax levy.

**Major Streets Fund** - The Major Streets Fund accounts for maintenance and improvement activities for streets designated as "major" within the City. Funding is provided primarily through state-shared gas and weight taxes.

**Local Streets Fund** - The Local Streets Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is provided primarily through state-shared gas and weight taxes.

**Capital Improvement Fund** - The Capital Improvement Fund accounts for special assessment capital projects. Funding is provided primarily through the collection of special assessment district levies.

**SEMSD Clean Water Initiative Fund** - The SEMSD Clean Water Initiative Fund accounts for the City's share of expenditures associated with the Lake St. Clair Clean Water Initiative project. Funding is provided primarily through bond issues.

The City reports the following major Enterprise Fund:

**Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage and storm water collection system. Funding is provided primarily through user charges.

Additionally, the City reports the following fund types:

**Pension and Other Employee Benefit Trust Funds** - The Pension and Other Employee Benefit Trust Funds account for the activities of the employee benefit plans, which accumulate resources for pension and other postemployment benefit payments to qualified employees.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Agency Funds** - The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments.

#### **Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenue, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges for services to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Property Tax Revenue** - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2004 tax is levied and collectible on July 1, 2004 and is recognized as revenue in the year ended June 30, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the City totaled \$687 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 12.5339 mills for operating purposes, 2.5067 mills for refuse collection, .9128 mills for library services, .9667 mills for the fire/ambulance services, and 1.034 mills for debt service. This resulted in approximately \$8.5 million for operating, \$1.7 million for refuse collection, \$617,000 for library services, \$653,000 for fire/ambulance services, and \$699,000 for debt service. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue.

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Assets, Liabilities, and Net Assets or Equity

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds is generally allocated to each fund using a weighted average.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Properties are assessed as of December 31. These taxes are billed on July 1 of the following year and become a lien on December 1. These taxes are due September 1 with the final collection date of February 28 before they are added to the county tax rolls.

**Inventories and Prepaid Items** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Infrastructure	25 years
Water and sewer distribution systems	40 years
Buildings and building improvements	20 years
Machinery and equipment	5 to 7 years

### **Note I - Summary of Significant Accounting Policies (Continued)**

**Compensated Absences** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when they have matured or come due for payment - generally when an individual's employment has terminated as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, and the deferred amount on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Correction of a Prior Period** - The net assets of the governmental activities as of July 1, 2004 have been restated to correct an error in the calculation of depreciation.

Governmental activities net assets - July 1, 2004 - As previously reported	\$ 14,519,310
Adjust accumulated depreciation	<u>6,771,392</u>
Governmental activities net assets - July 1, 2004 - As restated	<u>\$ 21,290,702</u>

The effect of this error was to increase the change in net assets of the governmental activities by \$476,934.

### Note 2 - Stewardship, Compliance, and Accountability

#### Budgetary Information

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

The City follows these procedures in establishing the budget reflected in the financial statements:

1. The city manager, on or before 60 days prior to the commencement of the fiscal and budgetary year (July 1), shall prepare and submit to the Council a complete itemized proposed budget before the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least 10 days in advance thereof by the clerk.
3. The Council shall, on or before 30 days prior to the commencement of the next fiscal year, adopt a budget for the ensuing fiscal year.

The annual budget is prepared by the city manager and adopted by the City Council; subsequent amendments are approved by the City Council. Budgeted amounts of the revenues and expenditures presented for the General and Special Revenue Funds are as amended by the City Council. Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund and major Special Revenue Funds is presented in the required supplementary information. A comparison of actual results of operations to the nonmajor Special Revenue Funds budgets as adopted by the City Council is available at the City offices for inspection. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

**State Construction Code Act** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspections of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2005

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

Cumulative shortfall - July 1, 2004		\$ (1,601,787)
Building permit revenue		255,741
Related expenditures:		
Direct costs	\$ 564,908	
Estimated indirect costs	<u>84,736</u>	
Total construction code expenditures		<u>649,644</u>
Excess of expenditures over revenues		<u>(393,903)</u>
Cumulative shortfall - June 30, 2005		<u>\$ (1,995,690)</u>

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Employees' Retirement System, the Employees' Death Benefit Fund, and the Retiree Health Care Fund are also authorized by Michigan Public Act 485 of 1996 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2005

### Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$14,940,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. The City held deposits in six financial institutions as of June 30, 2005.

#### Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government obligations	\$ 1,591,440	15.20 years
U.S. government agency bonds or notes	5,238,285	19.37 years
Corporate bonds (pension)	12,220,709	20.48 years

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2005

### Note 3 - Deposits and Investments (Continued)

Investment	Fair Value	Rating	Rating Organization
Bank investment pools	\$ 292,241	AAA	Standard and Poor's
U.S. government agency bonds or notes	5,238,284	AAA	Standard and Poor's
Corporate bonds	12,220,709	B - AAA	Standard and Poor's
Short-term invested cash (pension)	372,026	Not Rated	

#### Concentration of Credit Risk

The City places no limit on the amount that may be invested in any one issuer; however, the City's fiduciary funds subject to Michigan Public Act 485 of 1996 are limited by law in that investments in any one issuer (other than the U.S. government) may not exceed 5 percent of total investments. At June 30, 2005, there were no investments in any one issuer (other than the U.S. government) that exceeded 5 percent of total investments for the fiduciary funds.

#### Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system restricts the amount of investments in foreign currency - denominated investments to 5 percent of total pension system investments. The following securities are subject to foreign currency risk:

Security	Fair Value	Foreign Currency
Foreign bonds	\$ 593,047	Euro
Foreign bonds	14,655	Peso - Mexico

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2004 (as restated)	Additions	Disposals and Adjustments	Balance June 30, 2005
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,466,041	\$ 10,530	\$ -	\$ 1,476,571
Infrastructure construction in progress	11,685,865	-	8,189	11,677,676
Subtotal	13,151,906	10,530	8,189	13,154,247
Capital assets being depreciated:				
Infrastructure:				
Roads	12,182,329	757,462	-	12,939,791
Sidewalks	5,462,174	305,226	-	5,767,400
Buildings and building improvements	11,932,844	77,164	-	12,010,008
Machinery and equipment	5,382,142	474,242	145,377	5,711,007
Subtotal	34,959,489	1,614,094	145,377	36,428,206
Accumulated depreciation:				
Infrastructure:				
Roads	5,638,208	495,946	-	6,134,154
Sidewalks	1,851,083	230,646	-	2,081,729
Buildings and building improvements	7,533,873	405,477	-	7,939,350
Machinery and equipment	3,431,891	501,729	109,765	3,823,855
Subtotal	18,455,055	1,633,798	109,765	19,979,088
Net capital assets being depreciated	16,504,434	(19,704)	35,612	16,449,118
Net capital assets	\$ 29,656,340	\$ (9,174)	\$ 43,801	\$ 29,603,365
<b>Business-type activities:</b>				
Capital assets being depreciated:				
Buildings	\$ 311,251	\$ -	\$ -	\$ 311,251
Utility system	17,063,956	1,840,934	-	18,904,890
Machinery and equipment	1,058,055	-	-	1,058,055
Subtotal	18,433,262	1,840,934	-	20,274,196
Accumulated depreciation:				
Buildings	250,263	15,562	-	265,825
Utility system	9,328,255	472,623	-	9,800,878
Machinery and equipment	991,635	37,159	-	1,028,794
Subtotal	10,570,153	525,344	-	11,095,497
Net capital assets	\$ 7,863,109	\$ 1,315,590	\$ -	\$ 9,178,699

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2005

### Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 882,560
Public safety	259,136
Public works	73,439
Recreation and culture	<u>418,663</u>
Total governmental activities	<u>\$ 1,633,798</u>
Business-type activities - Water and sewer	<u>\$ 525,344</u>

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from other funds -		
General Fund	Nonmajor governmental funds	<u>\$ 20,881</u>

#### Interfund Transfers

Fund Transferred From	Fund Transferred To	Amount
General Fund	Fire Fund	\$ 2,302,892
	Nonmajor governmental funds	<u>600,623</u>
	Total General Fund	2,903,515
Fire Fund	Nonmajor governmental funds	162,292
Major Streets Fund	General Fund	15,500
	Local Streets Fund	<u>216,979</u>
	Total Major Streets Fund	232,479

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2005

### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Fund Transferred From	Fund Transferred To	Amount
Local Street Fund	General Fund	\$ 10,200
	Total Governmental Funds	3,308,486
Water and Sewer Fund	General Fund	385,000
	Nonmajor governmental funds	725,800
	Total Water and Sewer Fund	1,110,800
	Total	\$ 4,419,286

Transfers provided funding for capital projects, capital acquisitions, and debt service.

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:							
General obligation bond:							
Building Authority General Obligation Bonds							
Amount of issue - \$4,400,000	4.35% -	\$265,000 -					
Maturing through 2014	4.70%	\$460,000	\$ 3,855,000	\$ -	\$ (265,000)	\$ 3,590,000	\$ 290,000
County Drain Contract:							
Lake St. Clair Clean Water Initiative							
Amount of issue - \$11,328,038	Various	\$135,204 -					
Maturing through 2030	Various	\$691,846	11,328,038	-	(402,776)	10,925,262	432,749
Total bond obligations			15,183,038	-	(667,776)	14,515,262	722,749
Other long-term obligations:							
Compensated absences			1,179,806	-	(111,634)	1,068,172	100,000
Net pension obligation			610,452	10,795		621,247	-
Uninsured losses (Note 8)			138,261	372,412	(243,523)	267,150	-
Total governmental activities			17,111,557	383,207	(1,022,933)	16,471,831	822,749
Business-type activities - Water and Sewer							
Fund obligations - Compensated absences			36,718	-	(2,986)	33,732	-
Total			\$ 17,148,275	\$ 383,207	\$ (1,025,919)	\$ 16,505,563	\$ 822,749
Component unit - 1992 Downtown Development							
Authority Bonds:							
Amount of issue - \$995,000		\$65,000 -					
Maturing through 2011	6.00%	\$90,000	\$ 575,000	\$ -	\$ (70,000)	\$ 505,000	\$ 75,000

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2005

### Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond obligations and contracts are as follows:

Year Ended June 30	Governmental Activities			Component Unit		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 722,749	\$ 489,314	\$ 1,212,063	\$ 75,000	\$ 28,050	\$ 103,050
2007	767,261	465,896	1,233,157	85,000	23,250	108,250
2008	807,200	439,290	1,246,490	85,000	18,150	103,150
2009	853,747	410,866	1,264,613	85,000	13,050	98,050
2010	896,397	380,321	1,276,718	85,000	7,950	92,950
2011-2015	4,405,106	1,378,930	5,784,036	90,000	2,700	92,700
2016-2020	2,984,592	783,260	3,767,852	-	-	-
2021-2025	2,286,898	346,145	2,633,043	-	-	-
2026-2030	791,312	105,164	896,476	-	-	-
Total	<u>\$ 14,515,262</u>	<u>\$ 4,799,186</u>	<u>\$ 19,314,448</u>	<u>\$ 505,000</u>	<u>\$ 93,150</u>	<u>\$ 598,150</u>

**Defeased Debt** - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2005, \$3,485,000 of bonds outstanding are considered defeased.

### Note 7 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 105,643	\$ -
Delinquent special assessments	212,005	-
Ambulance billings	134,337	-
Total restricted assets	<u>\$ 451,985</u>	<u>\$ -</u>

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2005

### Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits; settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The City participates in the Michigan Municipal Risk Management Authority risk pool for claims other than medical benefits.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City of Eastpointe, Michigan.

The City is self-funded for claims up to a retention amount, at which time the City's reinsurance coverage begins. The City estimates the liability for claims that have been incurred through the end of the year, including both those claims that have been reported as well as those that have not been reported.

Changes in the estimated liability by category for the past two fiscal years were as follows:

	General Liability, Auto, and Property		Workers' Compensation	
	2005	2004	2005	2004
Estimated liability - Beginning of year	\$ 136,094	\$ 358,047	\$ 2,167	\$ 10,133
Estimated claims incurred, including changes in estimates	184,592	(77,892)	187,820	138,710
Claims payments	(55,036)	(144,061)	(188,487)	(146,676)
Estimated liability - End of year	<u>\$ 265,650</u>	<u>\$ 136,094</u>	<u>\$ 1,500</u>	<u>\$ 2,167</u>

### Note 9 - Defined Benefit Pension Plan

**Plan Description** - The City of Eastpointe Employees' Retirement System is the administrator of a single-employer public employees' retirement system, established pursuant to collective bargaining agreements that cover all full-time employees of the City. The system provides retirement and death benefits to plan members and their beneficiaries. At June 30, 2004, the date of the most recent actuarial valuation, membership consisted of 170 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 154 current active employees.

**Contributions** - Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Plan members are not required to contribute. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

**Annual Pension Costs** - For the year ended June 30, 2005, the City's annual pension cost was \$432,939 for the plan. The annual required contribution was \$432,939; however, the City made no contributions to the plan during the year. The annual required contribution was determined as part of an actuarial valuation at June 30, 2004, using the individual entry age actuarial funding method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return, (b) projected salary increases of 4 percent to 7 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 15 years.

**Reserves** - As of June 30, 2005, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 346,509
Reserve for retired benefit payments	36,635,583

# City of Eastpointe, Michigan

## Notes to Financial Statements June 30, 2005

### Note 9 - Defined Benefit Pension Plan (Continued)

Three-year trend information as of June 30 follows:

Year Ended June 30	Annual Pension Cost (APC)	Percentage of	
		APC Contributed	Net Pension Obligation
2003	\$ 10,978	-	\$ 22,615
2004	174,637	-	196,419
2005	432,939	-	621,247

### Note 10 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 159 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$1,883,000.

**Upcoming Accounting and Reporting Change** - The Governmental Accounting Standards Board has recently issued Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new standard will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

### Note 11 - Joint Ventures

The City is a member of the Southeast Macomb Sanitary District, which provides sewage to participating municipalities in Macomb County, Michigan. Other members include the cities of Roseville and St. Clair Shores, Michigan. The City appoints one member to the joint venture's governing board, who then approve the annual budgets. The City's equity interest of \$3,324,844 is recorded in the Water and Sewer Fund financial statements and within the business-type activities column in the statement of net assets.

### **Note 11 - Joint Ventures (Continued)**

Complete financial statements for the South Macomb Sanitary District can be obtained from the administrative offices at 20001 Pleasant Avenue, Box 286, St. Clair Shores, MI 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

The City is a member of the South Macomb Disposal Authority, which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Center Line, Roseville, St. Clair Shores, and Warren, Michigan. The City appoints one member to the joint venture's governing board, who then approve the annual budgets. The City's equity interest in the Authority's operating reserve of \$375,525 is recorded within the governmental activities column of the statement of activities. The Authority has reserves totaling approximately \$2.6 million that have been designated for self-insurance activities; the participating communities' equity interest in the insurance reserves is not determinable.

Complete financial statements for the South Macomb Disposal Authority can be obtained from the administrative offices at 20001 Pleasant Avenue, Box 286, St. Clair Shores, MI 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

### **Note 12 - Employees' Death Benefit Fund**

The Employees' Death Benefit Fund was established by the City Ordinance on October 13, 1958 for the purpose of providing a death benefit for employees who elect to participate in the plan. Prior year contributions from the City and plan members have been determined to be sufficient to fully fund the plan at June 30, 2005. Benefits at date of death are payable to designated beneficiaries in varying amounts. The obligation to contribute and maintain the plan was established by negotiation with the City's collective bargaining units.

## **Required Supplemental Information**

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# City of Eastpointe, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 8,797,220	\$ 8,797,574	\$ 8,796,871	\$ (703)
Licenses and permits	693,000	702,800	575,332	(127,468)
Federal sources	-	2,500	2,504	4
State sources	3,964,845	3,936,167	3,923,004	(13,163)
Charges for services	372,500	390,700	372,502	(18,198)
Rental income	138,250	140,000	149,422	9,422
Fines and forfeits	2,010,724	2,082,724	2,100,042	17,318
Interest and rentals	55,000	77,500	105,605	28,105
Other	290,063	356,366	377,387	21,021
Total revenue	16,321,602	16,486,331	16,402,669	(83,662)
<b>Expenditures</b>				
General government:				
City council	22,451	22,451	22,885	(434)
City manager	433,882	433,882	417,603	16,279
City clerk and elections	194,596	201,146	182,726	18,420
Finance	882,012	861,212	760,133	101,079
Assessor	296,408	296,408	294,371	2,037
Law	174,177	174,177	149,342	24,835
Judicial	908,177	975,176	985,116	(9,940)
General operating	3,120,156	3,163,011	2,985,893	177,118
Public safety:				
Police	6,185,874	6,197,648	5,912,876	284,772
Building inspection	559,048	563,905	564,908	(1,003)
Public works - Administration	419,129	406,530	350,594	55,936
Recreation and culture:				
Administration	557,525	585,075	575,822	9,253
Parks	583,675	577,475	544,917	32,558
Kennedy park pool	76,505	76,505	76,030	475
Senior citizens' center	230,163	230,163	210,877	19,286
Senior citizen SMART	65,349	65,349	54,792	10,557
Community enrichment and development:				
Planning	32,300	32,300	23,487	8,813
Beautification	15,000	11,569	7,163	4,406
Total expenditures	14,756,427	14,873,982	14,119,535	754,447
<b>Excess of Revenue Over Expenditures</b>	1,565,175	1,612,349	2,283,134	670,785
<b>Other Financing Sources (Uses)</b>				
Transfers in	410,700	410,700	410,700	-
Transfers out	(2,913,120)	(2,949,465)	(2,903,515)	45,950
Total other financing sources (uses)	(2,502,420)	(2,538,765)	(2,492,815)	45,950
<b>Net Change in Fund Balance</b>	(937,245)	(926,416)	(209,681)	716,735
<b>Fund Balance - Beginning of year</b>	3,902,937	3,902,937	3,902,937	-
<b>Fund Balance - End of year</b>	<b>\$ 2,965,692</b>	<b>\$ 2,976,521</b>	<b>\$ 3,693,256</b>	<b>\$ 716,735</b>

# City of Eastpointe, Michigan

	Fire Fund			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 654,445	\$ 658,685	\$ 658,609	\$ (76)
Federal sources	-	27,292	27,292	-
Charges for services	278,500	332,250	340,798	8,548
Interest	1,000	2,700	4,010	1,310
Other	1,000	2,100	1,339	(761)
Total revenue	934,945	1,023,027	1,032,048	9,021
<b>Expenditures</b>				
Public safety	3,112,065	3,163,637	3,020,002	143,635
Public works	-	-	-	-
Total expenditures	3,112,065	3,163,637	3,020,002	143,635
<b>Excess of Revenue Over (Under) Expenditures</b>	(2,177,120)	(2,140,610)	(1,987,954)	152,656
<b>Other Financing Sources (Uses)</b>				
Transfers in	2,312,120	2,302,892	2,302,892	-
Transfers out	(135,000)	(162,292)	(162,292)	-
Total other financing sources (uses)	2,177,120	2,140,600	2,140,600	-
<b>Net Change in Fund Balances</b>	-	(10)	152,646	152,656
<b>Fund Balances - Beginning of year</b>	61,273	61,273	61,273	-
<b>Fund Balances - End of year</b>	<u>\$ 61,273</u>	<u>\$ 61,263</u>	<u>\$ 213,919</u>	<u>\$ 152,656</u>

**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Special Revenue Funds**  
**Year Ended June 30, 2005**

Garbage and Rubbish Collection Fund			
Original Budget	Amended Budget	Actual	Variance with Amended Budget
\$ 1,695,852	\$ 1,695,852	\$ 1,703,092	\$ 7,240
-	-	-	-
500	500	-	(500)
10,000	10,000	26,290	16,290
-	-	-	-
1,706,352	1,706,352	1,729,382	23,030
-	-	-	-
1,706,352	1,706,352	1,516,494	189,858
1,706,352	1,706,352	1,516,494	189,858
-	-	212,888	212,888
-	-	-	-
-	-	-	-
-	-	-	-
-	-	212,888	212,888
655,090	655,090	655,090	-
<b>\$ 655,090</b>	<b>\$ 655,090</b>	<b>\$ 867,978</b>	<b>\$ 212,888</b>

# City of Eastpointe, Michigan

	Major Streets Fund			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
<b>Revenue</b>				
State-shared revenue and grants	\$ 1,241,590	\$ 1,263,985	\$ 1,500,913	\$ 236,928
Interest	5,000	20,500	33,813	13,313
Other	-	-	110,700	110,700
Total revenue	1,246,590	1,284,485	1,645,426	360,941
<b>Expenditures - Public works</b>	1,220,024	1,257,919	1,321,411	(63,492)
<b>Excess of Revenues Over (Under) Expenditures</b>	26,566	26,566	324,015	297,449
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	-	-
Transfers out	(232,479)	(232,479)	(232,479)	-
Total other financing sources (uses)	(232,479)	(232,479)	(232,479)	-
<b>Net Change in Fund Balances</b>	(205,913)	(205,913)	91,536	297,449
<b>Fund Balances - Beginning of year</b>	1,515,621	1,515,621	1,515,621	-
<b>Fund Balances - End of year</b>	<u>\$ 1,309,708</u>	<u>\$ 1,309,708</u>	<u>\$ 1,607,157</u>	<u>\$ 297,449</u>

**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Special Revenue Funds (Continued)**  
**Year Ended June 30, 2005**

Local Streets Fund			
Original Budget	Amended Budget	Actual	Variance with Amended Budget
\$ 544,466	\$ 544,466	\$ 533,541	\$ (10,925)
8,000	14,800	19,751	4,951
-	-	226	226
552,466	559,266	553,518	(5,748)
794,143	800,943	618,633	182,310
(241,677)	(241,677)	(65,115)	176,562
216,979	216,979	216,979	-
(10,200)	(10,200)	(10,200)	-
206,779	206,779	206,779	-
(34,898)	(34,898)	141,664	176,562
883,642	883,642	883,642	-
<b>\$ 848,744</b>	<b>\$ 848,744</b>	<b>\$ 1,025,306</b>	<b>\$ 176,562</b>

# City of Eastpointe, Michigan

## Required Supplemental Information Retirement System Schedule of Funding Progress June 30, 2005

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	Unfunded (Overfunded) AAL as a Percentage of Covered Payroll
06/30/99 *	\$ 51,377,333	\$ 39,535,364	\$ (11,841,969)	130	\$ 7,845,331	(151)
06/30/00 **	55,708,876	41,289,971	(14,418,905)	135	8,455,767	(171)
06/30/01	58,294,299	42,719,710	(15,574,589)	136	8,484,620	(184)
06/30/02 **	58,305,372	45,584,633	(12,720,739)	128	9,030,827	(141)
06/30/03 **	56,264,305	47,803,994	(8,460,311)	118	9,266,479	(91)
06/30/04	54,289,686	50,999,509	(3,290,177)	106	9,102,598	(36)

\* Includes changes in actuarial assumptions

\*\* Includes changes in benefit provisions

# City of Eastpointe, Michigan

## Required Supplemental Information Retirement System Schedule of Employer Contributions June 30, 2005

The schedule of employer contributions is as follows:

Fiscal Year Ended June 30	Annual Required Contribution*	Percentage Contributed
2000	\$ -	100
2001	-	100
2002	12,034	-
2003	10,978	-
2004	174,637	-
2005	432,939	-

\* The required contribution is expressed to the City as a percentage of payroll.

The above contributions are for pension benefits only and do not include amounts contributed for health care coverage. Amounts contributed for health care coverage are recorded in the City's Retiree Health Care Fund, which was established during the City's year ended June 30, 2000.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2004, the latest actuarial valuation, is as follows:

Valuation date	June 30, 2004
Actuarial cost method	Individual entry age
Amortization method	Level percent open
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return *	8.0%
Projected salary increases *	4% - 7%
*Includes inflation at	4%
Cost of living adjustments	None

## **Other Supplemental Information**

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# City of Eastpointe, Michigan

	Nonmajor Special			
	Library	Drug Law Enforcement	Local Law Enforcement	Juvenile Justice
<b>Assets</b>				
Cash and cash equivalents	\$ 100	\$ 336,263	\$ 39,789	\$ -
Due from other governmental units	64,925	-	-	20,065
Total assets	<u>\$ 65,025</u>	<u>\$ 336,263</u>	<u>\$ 39,789</u>	<u>\$ 20,065</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 19,230	\$ 5,339	\$ -	\$ -
Accrued and other liabilities	19,578	6,807	-	1,656
Due to other funds	5,772	-	-	15,109
Total liabilities	44,580	12,146	-	16,765
<b>Fund Balances - Unreserved</b>				
Designated for debt service	-	-	-	-
Designated for capital improvements	-	-	-	-
Undesignated	20,445	324,117	39,789	3,300
Total fund balances	20,445	324,117	39,789	3,300
Total liabilities and fund balances	<u>\$ 65,025</u>	<u>\$ 336,263</u>	<u>\$ 39,789</u>	<u>\$ 20,065</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2005**

Revenue Funds				Nonmajor Debt Service Funds		
Welfare and Catastrophe	Community Center	Eastpointe Fire	Memorial Library	Debt Service	Building Authority	Chapter 20 Drain Debt Service
\$ 21,285	\$ 10,525	\$ 566	\$ 3,562	\$ 177,900	\$ 392	\$ 35,115
-	-	-	-	-	-	-
<b><u>\$ 21,285</u></b>	<b><u>\$ 10,525</u></b>	<b><u>\$ 566</u></b>	<b><u>\$ 3,562</u></b>	<b><u>\$ 177,900</u></b>	<b><u>\$ 392</u></b>	<b><u>\$ 35,115</u></b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	177,900	392	35,115
-	-	-	-	-	-	-
21,285	10,525	566	3,562	-	-	-
21,285	10,525	566	3,562	177,900	392	35,115
<b><u>\$ 21,285</u></b>	<b><u>\$ 10,525</u></b>	<b><u>\$ 566</u></b>	<b><u>\$ 3,562</u></b>	<b><u>\$ 177,900</u></b>	<b><u>\$ 392</u></b>	<b><u>\$ 35,115</u></b>

# City of Eastpointe, Michigan

## Other Supplemental Information Combining Balance Sheet (Continued) Nonmajor Governmental Funds June 30, 2005

	Nonmajor Capital Projects		Total Nonmajor Governmental Funds
	Equipment Replacement	Building Authority Construction	
<b>Assets</b>			
Cash and cash equivalents	\$ 435,012	\$ 62,179	\$ 1,122,688
Due from other governmental units	1,100	-	86,090
Total assets	<u>\$ 436,112</u>	<u>\$ 62,179</u>	<u>\$ 1,208,778</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 9,014	\$ -	\$ 33,583
Accrued and other liabilities	-	-	28,041
Due to other funds	-	-	20,881
Total liabilities	9,014	-	82,505
<b>Fund Balances - Unreserved</b>			
Designated for debt service	-	-	213,407
Designated for capital improvements	427,098	62,179	489,277
Undesignated	-	-	423,589
Total fund balances	427,098	62,179	1,126,273
Total liabilities and fund balances	<u>\$ 436,112</u>	<u>\$ 62,179</u>	<u>\$ 1,208,778</u>

# City of Eastpointe, Michigan

	Nonmajor Special			
	Library	Drug Law Enforcement	Local Law Enforcement	Juvenile Justice
<b>Revenue</b>				
Property taxes	\$ 620,125	\$ -	\$ -	\$ -
Intergovernmental:				
Federal sources	-	-	14,916	59,920
State sources	29,685	-	-	-
Charges for services	2,969	-	-	-
Rental income	-	-	-	-
Fines and forfeits	73,013	412,407	-	-
Interest	2,030	5,696	853	-
Other	-	22,000	-	27,046
Total revenue	727,822	440,103	15,769	86,966
<b>Expenditures</b>				
Current:				
Public safety	-	155,852	19,808	87,058
Public works	-	-	-	-
Recreation and culture	724,248	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	724,248	155,852	19,808	87,058
<b>Excess of Revenue Over (Under) Expenditures</b>	3,574	284,251	(4,039)	(92)
<b>Other Financing Sources</b> - Transfers in	-	2,504	1,657	-
<b>Net Change in Fund Balances</b>	3,574	286,755	(2,382)	(92)
<b>Fund Balances</b> - Beginning of year	16,871	37,362	42,171	3,392
<b>Fund Balances</b> - End of year	<u>\$ 20,445</u>	<u>\$ 324,117</u>	<u>\$ 39,789</u>	<u>\$ 3,300</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2005**

Revenue Funds				Nonmajor Debt Service Funds		
Welfare and Catastrophe	Community Center	Eastpointe Fire	Memorial Library	Debt Service	Building Authority	Chapter 20 Drain Debt Service
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 702,473
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
450	224	12	71	1,033	-	1,981
-	50	-	1,550	-	-	-
450	274	12	1,621	1,033	-	704,454
-	-	-	-	-	-	-
-	-	-	-	-	300	801,367
-	2,138	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	395,235	265,000	-
-	-	-	-	331,064	175,150	-
-	2,138	-	-	726,299	440,450	801,367
450	(1,864)	12	1,621	(725,266)	(440,450)	(96,913)
-	-	-	-	725,800	440,550	-
450	(1,864)	12	1,621	534	100	(96,913)
20,835	12,389	554	1,941	177,366	292	132,028
<b>\$ 21,285</b>	<b>\$ 10,525</b>	<b>\$ 566</b>	<b>\$ 3,562</b>	<b>\$ 177,900</b>	<b>\$ 392</b>	<b>\$ 35,115</b>

# City of Eastpointe, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2005

	Nonmajor Capital Projects Funds		Total Nonmajor
	Equipment Replacement	Building Authority Construction	Governmental Funds
<b>Revenue</b>			
Property taxes	\$ -	\$ -	\$ 1,322,598
Intergovernmental:			
Federal sources	-	-	74,836
State sources	-	-	29,685
Charges for services	-	-	2,969
Rental income	156,524	-	156,524
Fines and forfeits	-	-	485,420
Interest	6,715	1,232	20,297
Other	-	-	50,646
Total revenue	163,239	1,232	2,142,975
<b>Expenditures</b>			
Current:			
Public safety	-	-	262,718
Public works	-	-	801,667
Recreation and culture	-	-	726,386
Capital outlay	365,413	-	365,413
Debt service:			
Principal	-	-	660,235
Interest	-	-	506,214
Total expenditures	365,413	-	3,322,633
<b>Excess of Revenue Over (Under) Expenditures</b>	(202,174)	1,232	(1,179,658)
<b>Other Financing Sources</b> - Transfers in	318,204	-	1,488,715
<b>Net Change in Fund Balances</b>	116,030	1,232	309,057
<b>Fund Balances</b> - Beginning of year	311,068	60,947	817,216
<b>Fund Balances</b> - End of year	<u>\$ 427,098</u>	<u>\$ 62,179</u>	<u>\$ 1,126,273</u>

# City of Eastpointe, Michigan

	Pension and Other Employee Benefit Trust Funds			
	Employees' Retirement System	Employees' Death Benefit	Retiree Health Care	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 906,683	\$ 25,675	\$ 280,297	\$ 1,212,655
Investments:				
Corporate bonds and notes	4,053,583	824,048	85,681	4,963,312
U.S. government securities	3,693,167	-	78,063	3,771,230
Common and preferred stock	28,324,389	-	558,210	28,882,599
Mutual funds	10,438,755	-	-	10,438,755
Due from other governmental units	-	-	-	-
<b>Total assets</b>	<b>47,416,577</b>	<b>849,723</b>	<b>1,002,251</b>	<b>49,268,551</b>
<b>Liabilities</b>				
Accounts payable	82,908	580	-	83,488
Accrued liabilities	-	-	-	-
<b>Total liabilities</b>	<b>82,908</b>	<b>580</b>	<b>-</b>	<b>83,488</b>
<b>Net Assets - Held in trust for pension and other employee benefits</b>	<b><u>\$ 47,333,669</u></b>	<b><u>\$ 849,143</u></b>	<b><u>\$ 1,002,251</u></b>	<b><u>\$ 49,185,063</u></b>

**Other Supplemental Information**  
**Combining Statement of Net Assets**  
**Fiduciary Funds**  
**June 30, 2005**

Agency Funds			
Cash and Performance Bonds	Imprest Payroll	AFLAC	Total
\$ 26,903	\$ 2,080	\$ -	\$ 28,983
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	1,055	1,055
<b>\$ 26,903</b>	<b>\$ 2,080</b>	<b>\$ 1,055</b>	<b>\$ 30,038</b>
\$ -	\$ 325	\$ 1,055	\$ 1,380
26,903	1,755	-	28,658
<b>\$ 26,903</b>	<b>\$ 2,080</b>	<b>\$ 1,055</b>	<b>\$ 30,038</b>

# City of Eastpointe, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2005

	Employees' Retirement System	Employees' Death Benefit	Retiree Health Care	Total
<b>Additions</b>				
Investment income:				
Interest and dividends	\$ 1,287,294	\$ 45,712	\$ 27,709	\$ 1,360,715
Net adjustment to fair value of investments	2,092,717	(14,022)	39,014	2,117,709
Less investment expenses	(303,066)	-	-	(303,066)
Net investment income	3,076,945	31,690	66,723	3,175,358
Employer contributions	-	-	1,816,348	1,816,348
Total additions	3,076,945	31,690	1,883,071	4,991,706
<b>Deductions</b>				
Benefit payments	3,357,842	7,055	-	3,364,897
Health insurance premiums	-	-	1,882,523	1,882,523
Administrative expenses	8,458	-	-	8,458
Total deductions	3,366,300	7,055	1,882,523	5,255,878
<b>Change in Net Assets</b>	(289,355)	24,635	548	(264,172)
<b>Net Assets - Beginning of year</b>	47,623,024	824,508	1,001,703	49,449,235
<b>Net Assets - End of year</b>	<u><u>\$ 47,333,669</u></u>	<u><u>\$ 849,143</u></u>	<u><u>\$ 1,002,251</u></u>	<u><u>\$ 49,185,063</u></u>

# City of Eastpointe, Michigan

## Schedule of Indebtedness June 30, 2005

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2005	2004
<b>County Drain Contract</b>					
Lake St. Clair Clean Water Initiative Drainage District:					
Drainage District Bonds					
Date of issue - Various					
Amount of issue - \$11,328,038					
	Various	10/01/04	\$ 395,235	\$ -	\$ 395,235
	Various	10/01/05	432,749	432,749	432,410
	Various	10/01/06	442,261	442,261	443,309
	Various	10/01/07	452,200	452,200	453,272
	Various	10/01/08	463,747	463,747	464,843
	Various	10/01/09	476,397	476,397	506,045
	Various	10/01/10	492,747	492,747	506,046
	Various	10/01/11	504,294	504,294	506,046
	Various	10/01/12	517,609	517,609	506,046
	Various	10/01/13	533,226	533,226	506,046
	Various	10/01/14	547,230	547,230	581,075
	Various	10/01/15	562,886	562,886	581,075
	Various	10/01/16	578,451	578,451	581,075
	Various	10/01/17	595,830	595,830	581,075
	Various	10/01/18	614,216	614,216	581,075
	Various	10/01/19	633,209	633,209	558,206
	Various	10/01/20	649,547	649,547	558,206
	Various	10/01/21	670,211	670,211	558,206
	Various	10/01/22	691,846	691,846	558,206
	Various	10/01/23	140,090	140,090	558,206
	Various	10/01/24	135,204	135,204	147,454
	Various	10/01/25	142,481	142,481	147,454
	Various	10/01/26	150,440	150,440	147,454
	Various	10/01/27	157,463	157,463	147,454
	Various	10/01/28	167,294	167,294	147,454
	Various	10/01/29	173,634	173,634	175,065
Total County Drain Contract				10,925,262	11,328,038

# City of Eastpointe, Michigan

## Schedule of Indebtedness (Continued) June 30, 2005

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2005	2004
<b>General Obligation Bonds</b>					
Building Authority General Obligation Bonds					
Date of issue - August 20, 1998					
Amount of issue - \$4,400,000					
	4.30	05/01/05	\$ 265,000	\$ -	\$ 265,000
	4.35	05/01/06	290,000	290,000	290,000
	4.40	05/01/07	325,000	325,000	325,000
	4.45	05/01/08	355,000	355,000	355,000
	4.50	05/01/09	390,000	390,000	390,000
	4.55	05/01/10	420,000	420,000	420,000
	4.60	05/01/11	460,000	460,000	460,000
	4.65	05/01/12	455,000	455,000	455,000
	4.70	05/01/13	450,000	450,000	450,000
	4.70	05/01/14	445,000	445,000	445,000
Total general obligation bonds				3,590,000	3,855,000
Total indebtedness				<b>\$ 14,515,262</b>	<b>\$ 15,183,038</b>



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October 28, 2005

The Honorable Mayor and Members  
of the City Council  
City of Eastpointe  
23200 Gratiot Avenue  
Eastpointe, MI 48021

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Eastpointe for the year ended June 30, 2005. In addition to our audit report, we offer the following comments and recommendations for your consideration:

## **OVERVIEW OF THE CITY'S FINANCIAL CONDITION**

During the year ended June 30, 2005, General Fund expenditures exceeded revenues by approximately \$210,000, taking into account transfers to and from other funds. Fund balance at June 30, 2005 amounted to approximately \$3,693,000. Of this amount, approximately \$6,000 is reserved for prepaid expenditures, \$1,068,000 is designated for compensated absences, \$1,955,000 is designated for subsequent years' expenditures, and \$664,000 is undesignated.

During the 2004-2005 fiscal year, the City experienced only modest growth in property tax revenue (approximately 2.5%) and a reduction in State revenue sharing sources (as discussed below), however, most City departments were near or below budgeted expenditures. As a result, in comparison with the 2004-2005 budget, fund balance at June 30, 2005, is higher than anticipated. We compliment the City Council and administration for their success in planning and monitoring the budget.

The City continues to be faced with budgetary challenges. Many challenges, including further reductions in State shared revenue, are a direct result of the difficult economic period that has been experienced in the State of Michigan. Other challenges, such as limited ability to experience growth in property tax revenue, future capital equipment and infrastructure needs, and currently unfunded post-employment benefit obligations, are characteristics of the City and its physical framework. It is important that the City continue to monitor and maintain an adequate level of fund balance to meet financial challenges without affecting the level of services provided to citizens or the City's ability to fund future obligations.

## **STATE SHARED REVENUE**

The budget for the State of Michigan's 2005-2006 fiscal year provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which equals the fiscal year 2004-2005 funding level. As such, no further reductions to revenue sharing below the current funding level have been proposed.

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While it is good news that revenue sharing will be maintained at current levels, continued caution should be exercised when preparing and monitoring the City's budget. It is important to note that sales tax revenue would support an increase to total state shared revenue payments for fiscal years 2004-2005 and 2005-2006 of over \$500 million based on the formulas provided for in law and actual sales tax collections. This fact highlights the structural deficits in the State's General Fund and, as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As you are aware, state shared revenue accounts for approximately 24 percent of the City's total General Fund budget and is comprised of a constitutional and statutory portion. The table below details state shared revenue for the City over the past five years and projected funding levels for 2006, including the total decrease in state shared revenue experienced by the City since the 2000-2001 fiscal year:

Fiscal Year	Statutory	Constitutional	Total	Decrease from 2001
2001	\$2,509,352	\$2,211,331	\$4,720,683	\$ -
2002	2,313,537	2,233,856	4,547,393	173,290
2003	2,101,340	2,271,676	4,373,016	347,667
2004	1,683,261	2,246,999	3,930,260	790,423
2005	1,586,798	2,300,622	3,887,420	833,263
2006	1,504,907	2,382,513	3,887,420	833,263

If the State were to consider additional cuts to revenue sharing, the City is potentially at risk for the amount of statutory revenue sharing (the constitutional portion cannot be modified without a change to the State's constitution). We will continue to update the City as developments occur with revenue sharing and the State's budget. In addition, updated information can be obtained from the State's website or by calling the Office of Revenue and Tax Analysis at 517.373.2697.

## **TRANSPORTATION FUNDING**

The State of Michigan has indicated that it anticipates transportation related tax receipts to be approximately 3 to 4 percent lower than expected for the State's 2004-2005 fiscal year ending September 30, 2005. The lower tax receipts will likely result in reduced Act 51 revenue sharing payments for the City's Major and Local Streets Funds. Because of the difference in the City's and the State's fiscal years, the reduced Act 51 payments may also have an impact on the City's 2005-2006 fiscal year. We will keep the City informed as updated information is received from the Michigan Department of Treasury.

## **WATER AND SEWER OPERATIONS**

The City bills for water usage and sewage disposal on a quarterly basis. Approximately 50 percent of all billings are based on estimated meter readings. We encourage the City to review its procedures for obtaining actual vs. estimated meter reads and gain an understanding for the cause in significant estimated readings. The procedures currently in place should be modified to ensure estimated readings are kept to a minimum. Decreasing the number of estimated readings may also produce a more accurate calculation of the City's water loss.

Also during our testing of water and sewer, we noticed that the receivable for delinquent water bills is approximately \$996,000. When residents are delinquent in paying their water bills, rather than shutting off the resident's water, the City places the charges and penalties on the resident's tax bill. It would appear that many residents are taking advantage of this policy. We recommend the City consider the impact on the timing of cash flows using this policy vs. the impact of denying water usage to residents that are delinquent.

## **PENSION PLAN**

The City currently participates in a single retirement plan which encompasses three separate employee groups – General Government, Police, and Fire. Since each employee group is entitled to different benefits, the actuarial determined contribution amount is calculated per employee group. The annual required contribution, determined as part of an actuarial valuation at June 30, 2004, was calculated as follows:

General Government	\$122,716
Police	\$463,601
Fire	<u>\$191,323</u>
Total	\$777,640

The City made no contributions to the plan during the year ended June 30, 2004. In the future, we recommend making the annual required contribution.

## **OTHER POST EMPLOYMENT BENEFITS (OPEB)**

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post employment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

## **OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)**

However, the new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under-funding must be reported as a liability on the government wide statement of net assets. For the City of Eastpointe, this valuation will need to be performed by an actuary at least every other year.

Currently, the City is recognizing this expenditure on a "pay as you go" basis. As indicated in the City's financial report, for the year ended June 30, 2005 (Note 10), this expenditure amounted to approximately \$1,883,000. The City's OPEB obligation on an actuarial basis would be significantly more, possibly two to three times as much.

This statement is being phased in over a three year period, similar to GASB 34. For the City of Eastpointe, it is effective the year beginning on July 1, 2008.

The Honorable Mayor and Members  
of the City Council  
City of Eastpointe

-4-

October 28, 2005

We would like to thank the Mayor and City Council for the opportunity to serve as auditors for the City. We would also like to compliment Susan Mancani and her staff for the excellent condition of the City's financial records, and thank them for their assistance and cooperation during the audit. If you would like to discuss any of these matters further, or would like any other assistance, please contact us.

Very truly yours,

**PLANTE & MORAN, PLLC**

A handwritten signature in black ink that reads "Bruce M. Berend". The signature is written in a cursive style with a large, stylized "B" and "M".

Bruce M. Berend

A handwritten signature in black ink that reads "Jenny L. Cederstrom". The signature is written in a cursive style with a large, stylized "J" and "C".

Jenny L. Cederstrom